CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 28, 2006

H.R. 609
College Access and Opportunity Act of 2006

Amendment in the Nature of a Substitute for H.R. 609, as reported by the Committee on Rules on March 22, 2006

SUMMARY

The amendment in the nature of a substitute for H.R. 609 would make changes to federal higher education programs, including the Pell Grant program and the Perkins Loan program, and numerous smaller changes to the student and parent loan programs. CBO estimates that enacting the Rules Committee's amendment would result in direct spending of $1.8 billion in 2006, $7.75 billion over the 2006-2011 period, and $11.4 billion over the 2006-2016 period. H.R. 609 also would affect spending subject to appropriation, but CBO has not completed an analysis of the bill's potential impact on discretionary spending.

Provisions included in this version of H.R. 609 with significant budget effects include:

- Increasing the maximum award level for Pell grants for academic year 2006-2007 to $6,000;
- Changing eligibility requirements for Pell grants;
- Requiring the Secretary of Education to reallocate to schools default collections on Perkins loans; and
- Delaying the recall of the federal share of the Perkins Loan Revolving Fund.

This legislation contains no intergovernmental or private-sector mandates as defined by the Unfunded Mandates Reform Act (UMRA); any costs to state, local, or tribal governments would result from complying with conditions of federal assistance.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of this legislation on direct spending is shown in Table 1. The costs would fall within budget function 500 (education, training, and social services).

TABLE 1. ESTIMATED DIRECT SPENDING EFFECTS OF AN AMENDMENT IN THE NATURE OF A SUBSTITUTE FOR H.R. 609

	By Fiscal Year, in Millions of Dollars										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CHANGES IN DIRECT SPENDING											
Changes in the Pell Grant Program											
Estimated Budget Authority	7,580	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	1,819	5,609	152	0	0	0	0	0	0	0	0
Changes in the Perkins Loan Program											
Estimated Budget Authority	10	40	40	40	40	40	401	715	736	840	917
Estimated Outlays	0	10	40	40	40	40	401	715	736	840	917
Total Changes in Direct Spending											
Estimated Budget Authority	7,590	40	40	40	40	40	401	715	736	840	917
Estimated Outlays	1,819	5,619	192	40	40	40	401	715	736	840	917

BASIS OF ESTIMATE

CBO's estimate of the direct spending effects of this complete substitute for H.R. 609 assumes that the bill will be enacted by July 2006. The CBO has not completed its review of the provisions of the bill that would affect spending subject to appropriation.

Pell Grants. Although the Pell Grant program is generally treated as a discretionary program, changes that would affect spending for those academic years for which funds have already been appropriated are considered direct spending. As such, all changes this bill would make to the Pell grant program for academic year 2006-2007 would result in direct spending.

CBO estimates that the bill would increase outlays for Pell grants by $1.8 billion in fiscal year 2006 and by $7.6 billion over the 2006-2008 period (see Table 2). Most of this cost, about $7.5 billion, would result from raising the maximum award level to $6,000 from the $4,050 figure set in the 2006 appropriation act. That change would increase the number of recipients by approximately 250,000 and the average grant by about $1,250, CBO estimates. The bill would also increase costs by providing year-round Pell grants to students who accelerate their degree program by attending schools that offer year-long enrollment, awarding additional grants of $1,000 to students who participate in the State Scholars Program, and eliminating tuition sensitivity, a provision that limits the Pell award if a student's tuition is below a specific level. Those three provisions would cost $263 million, CBO estimates.

TABLE 2. ESTIMATED EFFECTS ON DIRECT SPENDING FOR THE PELL GRANT PROGRAM

	By Fiscal Year, in Millions of Dollars					
	2006	2007	2008	2009	2010	2011
Raise Maximum Award Level to $6,000						
Estimated Budget Authority	7,536	0	0	0	0	0
Estimated Outlays	1,809	5,577	151	0	0	0
Year-round Pell Grants						
Estimated Budget Authority	74	0	0	0	0	0
Estimated Outlays	18	55	1	0	0	0
Achievement Grants for State Scholars						
Estimated Budget Authority	65	0	0	0	0	0
Estimated Outlays	16	48	1	0	0	0
Eliminate Tuition Sensitivity						
Estimated Budget Authority	124	0	0	0	0	0
Estimated Outlays	30	92	2	0	0	0
Involuntary Civil Commitment						
Estimated Budget Authority	*	0	0	0	0	0
Estimated Outlays	*	*	*	0	0	0
Limit Time to 18 Semesters						
Estimated Budget Authority	-27	0	0	0	0	0
Estimated Outlays	-6	-20	-1	0	0	0
Limits on Remedial Education						
Estimated Budget Authority	-192	0	0	0	0	0
Estimated Outlays	-46	-142	-4	0	0	0
Total						
Estimated Budget Authority	7,580	0	0	0	0	0
Estimated Outlays	1,819	5,609	152	0	0	0

NOTES: Components may not sum to totals due to rounding.

* = Between -$500,000 and $500,000.

This substitute to H.R. 609 also includes several provisions that would reduce outlays by an estimated $219 million, partially offsetting some of these increased costs. The bill would prohibit Pell grants for individuals who are subject to involuntary civil commitment for a sexual offense and limit the period of a student's Pell grant eligibility to 18 semesters (or 27 quarters) and to no more than one academic year of remedial education.

Perkins Loan Revolving Fund. The legislation would require the government to reallocate to schools certain collections on defaulted loans in the Perkins Loan program and would delay the beginning of the recall to the Treasury of balances held by participating schools from 2012 to 2020.

Under current law, any collections by the Secretary of Education on defaulted Perkins loans—a program administered by colleges and universities—are returned to the Treasury. These collections amount to roughly $40 million per year. The bill would require the Secretary to reallocate these funds—in the following year—to other schools participating in the loan program, thus increasing net federal spending by an estimated $10 million in 2007 and $40 million annually thereafter.

Beginning in 2012, schools are required to return the federal share of their Perkins loan repayments to the Treasury. This version of H.R. 609 would delay that date until 2020. Based on data from the Department of Education, CBO estimates that the recall of the federal share would total about $3.4 billion over the 2012-2016 period. Consequently, the delay that would result from enacting H.R. 609 would reduce recoveries, and thus increase net outlays, by a like amount.

INTERGOVERNMENTAL AND PRIVATE SECTOR IMPACT

This amendment to H.R. 609 contains no intergovernmental or private-sector mandates as defined by UMRA. The bill would authorize funding for student aid and higher education programs, much of which would go to public institutions of higher education.

The bill also would impose several new reporting requirements on institutions of higher education that receive federal aid; costs related to these requirements would be incurred voluntarily, as a condition of federal assistance. Those institutions would be required to submit data that would be used by the Department of Education to calculate an institution’s affordability index. Institutions with indexes that exceed a certain threshold also would be required to submit management and action plans that outline steps the institution will take to reduce its affordability index.

PREVIOUS CBO ESTIMATE:

On September 16, 2005, CBO prepared a cost estimate for H.R. 609, the College Access and Opportunities Act of 2005, as ordered reported by the House Committee on Education and the Workforce. CBO estimated that version of the bill would reduce mandatory costs by $8.7 billion over the 2006-2010 period.

Many provisions of that bill, primarily those affecting student loans, were subsequently enacted as part of Part A of Title VIII of Public Law109-171, the Deficit Reduction Act of 2005.

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